Compliments of the First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York.

1812

THE NATIONAL CITY BANK OF NEW YORK

1922

Economic Conditions
United States Securities
Governmental Finance

New York, April, 1922.

General Business Conditions.

THE general feeling in business circles is one of strengthening confidence that the corner has been turned and that 1922 will be a better year than 1921. The improvement in fundamental conditions and in general feeling since the first of the year has been very marked; indeed, from the middle of January to the first of March optimism was perhaps over-pronounced, and a moderate reaction in some lines has naturally resulted.

The stock market, which is prompt to reflect and even anticipate changes in fundamental conditions, has been creeping upward for the last six months in a slow but persistent movement which suggests faith that better days are coming.

Railroad traffic, as indicated by the reports of car-loadings since the first of the year, have been running ahead of last year, although January gross earnings were about 16 per cent below those of the same month of 1921. On the other hand the net earnings of 199 roads were $57,421,605 in January against $28,331,956 in January, 1921, which reflects the reduction in operating expenses. Increased loadings are not reflected in increased revenues until several weeks later, because freight charges are collected upon the delivery of goods. The progressive gain in loadings is shown by the increase of 8 per cent in February and approximately double that in March, in each case over the corresponding months of last year.

Although exports in January and February showed heavy declines from the corresponding months of last year, the drop was in prices rather than in quantities, and within the last month a decided improvement in the number of inquiries and in actual business has been reported. The rise of the foreign exchanges has had a noticeably beneficial effect.

Trading in all lines is on a short order basis. Foreign buyers wish to avoid the risks of exchange fluctuations so far as possible, and in the domestic trade there is a prospect that in some lines, particularly clothing and textiles, prices may be lower. There is general agreement, however, that both at home and abroad stocks have been worked down to the minimum and that there must be constant buying to meet the demands for current consumption. This is one respect in which the situation is decidedly more favorable than it was in the latter part of 1920 and throughout most of 1921.

The steel industry has made a marked recovery, the United States Steel Corporation now operating at about 70 per cent of capacity and the independent companies in the aggregate at probably 60 per cent. When it is considered that productive capacity has increased about 50 per cent since before the war, it will be seen that this is far from a state of stagnation. Prices stiffened in several lines of steel products, and Judge Gary, answering an inquiry as to the policy of the corporation, has stated that it was disposed to follow the lead of the independents in making prices. The computation of average prices upon fourteen leading iron and steel products by the Iron Trade Review shows a composite for the last week in March of $33.36 compared with $32.80 last week, $32.87 two weeks ago, $32.86 for all February, $33.45 for January, and $27.93 for March, 1913.

The revival of the demand for iron and steel may be due in some degree to misgivings on the part of the public that the steel strike may interfere with production, but it is indirectly due in part to the extensive equipment orders that have been given by the railroads, who have ordered more cars in the last three months than in all of last year. The implement industry, although still far from normal, is much better than at this time last year, and that is the case also with the automobile industry, and even more so with the building industry. The figures for the latter are quite remarkable, permits in 161 cities aggregating $132,909,000 in February last, against $50,433,167 in February, 1921.

The sugar situation in Cuba has improved materially since the first of the year. "Facts about Sugar," which is the leading publication

representing American sugar interests, in a recent editorial says:

The month of January, usually a comparatively dull season in the sugar trade, was marked by the heaviest importations, meltings and distribution ever recorded for this period of the year. February and the first half of March have witnessed an acceleration rather than a diminution in this movement. Every department of the industry has shared in this activity. Recorded sales in the raw market have amounted to over a million tons, or at the rate of over five million a year, and undoubtedly many transactions have not yet been reported. The movement of raw supplies from Cuba has proceeded at a remarkable pace and with the greatest smoothness. Loading and shipping a million and a half bags of sugar in a single week is a task of no small proportions, but it has been performed by the fleet serving the sugar trade, between Cuba and the United States without a hitch.

The Situation in Agriculture

The chief factor in the change of sentiment which has occurred since the first of the year has been the rise in prices of farm products. It came so easily and naturally as to demonstrate that the country had been suffering from excessive pessimism, and that in the natural order of things the economic situation, given reasonable time, would recover its equilibrium. Grain prices in March lost a part of their February gains, but the reasons were obvious and there was no serious loss of confidence. The breaking of the drought in the southwest and improvement in the outlook for the Winter wheat crop was the principal factor in the decline. For several months the country had been hearing that the condition of the Kansas wheat crop was critical and getting worse every day, and then came snow and rain, and the Kansas City Star now says that the prospect is good for as large a crop as Kansas ever has raised. The world situation in wheat is closely balanced and any important news is likely to have more than the usual effect. Australia and Argentina are both exporting wheat freely. New wheat from India will be available within a month, and the harvest is only three months off in this country. As the end of the crop year approaches, opinions about the supplies give way to realities. There have been two positive opinions as to whether or not this country was selling itself short, but the opinion is now general that there will be enough to go around.

Sir James Wilson, a well-known British authority upon wheat, is quoted as estimating a surplus in world supplies of 80,000,000 bushels at the end of the crop year.

Corn, Oats and Live Stock

Corn and oats always are influenced more or less by wheat, and both are down from the top. The stocks in the central markets are well up to storage capacity, and the speculative market is not inclined to take more. The price of corn will be dominated in the long run by the price of live stock, particularly hogs. Ten dollars per hundred for hogs means that a large part of the corn crop is being marketed at very profitable prices.

Although the exports of all meat products in 1921 increased 3 per cent in pounds over those of 1920, hog products fared better than beef. Exports of fresh beef, at 10,412,790 lbs., were the lightest since 1913, and compared with 89,649,148 lbs. in 1920. Canned beef was 6,077,248, against 24,059,711 in 1920. Bacon fell from 638,678,000 to 415,299,000, but ham and shoulders increased from 185,246,000 to 232,380,000 and lard rose from 635,488,000 to 892,883,000.

Agriculture in Europe

We have received a letter from Professor A. E. Taylor, of Leland Stanford University, in which he expresses the opinion that we have been unduly optimistic in making the statement that "in Europe outside of Russia agriculture will be back in 1922 almost to normal productivity." This statement was made with particular reference to the grains, but we are glad to have the opportunity of giving the opinion of so well-informed an observer as Professor Taylor. He says:

I surveyed agricultural and nutritional conditions in Europe in 1920-1921 for the American Relief Administration, so I am writing from personal experience, fortified by regular Governmental reports from each country in Europe. Agriculture cannot be back to the normal in 1922, for a number of reasons. The count of animals is gradually being restored but lack of purchasing power prevents Europe from importing a volume of feeding stuffs necessary to bring the productivity of each animal, in edible products, up to the pre-war level. The average milch cow and the average slaughtered steer and pig in Europe yields much less in weighed products than before the war and this will not be restored in 1922. Sugar production will not be restored in 1922. The production of bread grains will be restored in 1922, barring crop failure. The production of fruits and vegetables will probably be normal, barring crop failure. Potatoes, rice and maize will be normal, barring crop failure. But if you will take the calories produced in 1921, contrast them with 1920 and 1919 and analyze the position, you will find your prediction for 1922 unduly optimistic.

Nearly every one overlooks one reason for Europe's ability to limit her imports. She mills her bread grains differently than before the war. The average extraction of flour before the war was about 72% for wheat and 76% for rye. A great deal of wheat and rye are now milled to 85% and 90%. This means that much less bread grains are required to produce a certain bread ration. It also means that domesticated animals are deprived of the corresponding amount of mill feed. The purchasing power of wheat, which was very high in Europe last year, is falling even more rapidly than the purchasing power of wheat in this country is rising. Europe will reach a relative agricultural equilibrium during 1922; but it will not reach the normal level at that time. It will be of great advantage for her to reach a new equilibrium between agricultural products, even though the level be below that of the pre-war period. This new equilibrium between agricultural products will be accompanied by a new equilibrium in a somewhat subnormal standard of living, especially for Central and Eastern Europe. Certainly prices are not going back to war figures; but certainly they are not going back to pre-war figures.

The Cotton Outlook

Cotton is about where it was at the beginning of March. The Journal of Commerce calculates that about 9,000,000 bales have been taken from American stocks since August 1st, including exports. The carry-over was about 8,500,000 and the crop a little short of 8,000,000, say a total of 16,500,000; this leaves about 7,500,000 on hand, from which consumption to July 31 will take 4,000,000 to 4,500,000, leaving 3,000,000 to 3,500,000 bales for the carry-over. It is plain that if the crop this season is no larger than last, the amount available will be 2,000,000 bales or more short of the requirements, even though these are no greater than for the current year. As the world has been living on reduced consumption for several years, it very much needs to use more cotton, and the situation is disquieting. If the season should be bad for the growing crop we may have very high prices for cotton. Such an outcome is very undesirable, for it will mean high prices to consumers with little compensating benefit to growers.

Prospects Encouraging

On the whole there seems to be a good basis for believing that agriculture in all branches will have a better market for the next crop than for the last one. The farmer's costs are declining, and we believe that the necessary readjustments to bring industry into balance require that they shall continue to decline. It is in the interest of all business that the farmers, the most numerous class in the country, shall have a fair show in the field. With agricultural production increasing in Europe the farmer cannot expect the prices of his products to go back to the high levels due to the war, and if he has made mistakes of judgment by buying property at high prices he has lots of company among people who are not farmers, but he has a right to expect that one way or another, his products shall have a purchasing power in relation to other commodities and services equal to that of before the war. We do not think that much can be done by means of legislation to secure this for him, but are positive in our opinion that economic law will bring it to him, and we counsel all other groups to cheerfully accord it to him as rightfully due.

Money Market.

The banking situation has been working easier, the loans of the reserve banks with some fluctuations tending downward. The industrial revival has not gone far enough to be reflected in the demand for credit. Commercial paper, choice names, is on about a 4¾ per cent basis, collateral loans 4½ to 4¾, call money 4 to 4½ per cent.

The operations of the War Finance Corporation have been an important factor in easing the situation in the agricultural districts. The advances by the Corporation from January 4, 1921, to March 11, 1922:

To Cooperative Associations	$63,650,000.00
To Banking and Financing Institutions	235,824,013.40
To Exporters	8,965,708.89
Total	$308,439,722.29

The operations of the Federal Land banks and Joint Stock Land banks also have been an important factor in relieving the pressure on local banks during the past year. Since the Supreme Court decision affirming the constitutionality of the law was rendered on February 28, 1921, down to March 24, 1922, farm loan bonds have been authorized by the Board as follows:

Joint Stock Loan banks	$47,409,000.00
Federal Land banks	176,450,000.00

The amount of bonds actually sold is not reported.

The bond market has sustained a good degree of activity, the decline of call money rates being a factor. Since the first of the year practically the entire list has moved into higher ground. The improvement in European exchanges has found its response in high records for practically all the foreign issues, the most notable advances occurring in French 8s and 7½s, the former selling at 108¾ compared with 99½ about a month ago and the latter at 104½ compared with 94.

United States Government issues have recorded the highest quotations of the year and there is broad trading in practically all of the Liberty issues. Following is a comparison of prices of March 29th and March 1st:

	March 29	March 1
Liberty 3½s	98⅛	97.
Liberty 1st 4¼s	98⅛	97.30
Liberty 2nd 4¼s	98 5/16	97.
Liberty 3rd 4¼s	99⅝	98⅛
Liberty 4th 4¼s	98⅝	97⅝
Victory 4¾s	100.80	100⅛

The average of forty high grade securities as reported by the Wall Street Journal of March 29th is 87.25 compared with 86.01 February 28th and 76.80 on March 29, 1921.

The Foreign Situation.

Aside from the unsettled and extremely unsatisfactory state of the reparations question, European affairs have been progressing in a manner to give encouragement. The exchanges, excepting those of central Europe, have been doing better, and important steps for the rescue of Austria have been taken. After apparently giving the matter no attention since the appeal was first made last June, the Congress of the United States, by nearly unanimous action finally has passed the bill

postponing for twenty-five years the claim of this country for reimbursement of expenditures amounting to $24,000,000, representing food supplies sent to Austria two or three years ago. This action will enable Austria to give priority to certain loans which she is negotiatng by means of which she hopes to stabilize her currency. It is a noteworthy fact as exhibiting the courage of British statesmanship and the qualities of leadership which it develops in emergencies, that the British Government has arranged for the placing of a loan of approximately $10,000,000 for this purpose in London. France and Italy will cooperate.

Czecho-Slovakia, which seems to be on quite amicable terms with her old associate and ruler, is making Austria a loan of 500,000,000 crowns, but this represents old indebtedness. The prospects for reciprocal trade relations throughout the territory formerly included in the Austrian empire are improved. The reports from Poland as to industrial conditions are encouraging. The country made a good recovery in 1921 and is expected to considerably increase production in 1922. Czecho-Slovakia has solved the problem which has defied most of the European countries, of balancing the budget, is in stable condition and negotiating an external loan reported at $50,000,000, probably to be divided between London and New York.

The Genoa Conference

The Genoa Conference, although of vague import, should accomplish something by bringing the high representatives of all Europe together. There is disappointment over the declination of the United States, but the government of this country is not in position to enter into engagements upon any of the matters that would be put up to it if it was represented. The President of the United States occupies a different relationship to the government of this country from that held by the Prime Ministers of countries having Parliamentary government. Mr. Chamberlain, leader of the British government in the House of Commons, stated a few days since that the Prime Minister would ask for a vote of confidence before going to Genoa, to set at rest questions that had been raised as to his having a majority of the Commons behind him. The President of the United States does not represent the Congress, and while he is nominally head of the party now in power in both branches, the obligation to support him is but lightly regarded.

The example and fate of President Wilson, who took a leading part in negotiating the treaty of Versailles, is still fresh to memory. One more fiasco like that and the idea of the United States participating in an international conference would have been a joke, and the second occurrence has been narrowly escaped in the action of the Senate upon the treaties arranged by the recent Washington Conference. It would have been venturesome, indeed, for President Harding to have assumed to have representation in another conference before the Senate had finished dealing with the results of the last one. A great many Americans regard it as unfortunate that the United States is unable at this time to participate, but there is little room for disagreement with President Harding's judgment that it is impracticable to attempt it. This country can do little in the way of planning or shaping policies in Europe. It will act when it must upon the matters in which it is directly concerned and as questions come up to it.

The Reparations

The most discouraging fact of the foreign situation is the failure of the allies to get a working agreement with Germany. When the latter defaulted upon the payments due January 15th, a tentative agreement was reached for the payment of 31,000,000 gold marks every ten days, pending a study of the situation and further report by the Reparations Commission. The Commission has finally decided that Germany shall pay 720,000,000 gold marks (about $180,000,000) and 1,450,000,000 gold marks in materials and supplies in 1922. To this requirement is attached the condition that the German government shall balance its budget and stabilize its currency, raising by taxation or internal loans the sums necessary to meet all current expenses and the terms of the agreement.

The mark, which had recovered to above a half cent under the tentative agreement, reflecting a hope that a practicable arrangement would be reached, has slumped to three-tenths of a cent, the lowest point yet touched, and the German government protests that the terms are impossible.

The Industries.

Although the readjustment of wages and prices is making steady progress, industrial recovery is still retarded by the failure of certain important industries to come into line, and give their aid in restoring the balance.

We gave some months ago figures prepared by Deere & Co., a well-known firm manufacturing agricultural implements at Moline, Ill., showing how the farmers were affected by the decline whch had taken place in the prices of their products together with higher prices of implements and higher freight charges both upon implements and upon farm products.

The figures were originally made in connection with correspondence between Deere & Co. and a farmer living at Culbertson, Neb. Since they were made last fall the situation has improved, both by the rise of corn and by

a reduction of freight rates which went into effect January 1, 1922, and the original figures have been extended to include four typical farm implements, viz.: gangplow, farm wagon, corn binder and grain binder, and brought down to March 14, 1922. Moreover, in addition to figures at Culbertson, which is a typical small country town, figures have been completed upon the same implements at Kansas City, a leading wholesale distributing point for implements.

In giving these figures we would repeat by way of explanation that the farmer not only pays for what he buys by the sale of his own products but that he necessarily pays the freight both ways. He pays it on the implements from the factory to the railroad station where he makes the purchase, and on the other hand, he sells his corn and other products in the local market on the basis of the price at the central market, less the freight and handling charges on the way to that market. These computations are based upon Chicago as the price-making market, although it does not at all times make the Kansas City market.

The calculations are as follows:

STATEMENT SHOWING AMOUNT OF FREIGHT INVOLVED IN THE PURCHASE OF FOUR TYPICAL FARM IMPLEMENTS AT CULBERTSON, NEB.

	Aug. 1, 1914	Oct. 15, 1921	Jan. 3, 1922	Feb. 11, 1922	Mar. 14, 1922
Farmer's price on implements	485.00	738.00	736.00	736.00	736.00
Price of corn, Chicago	.77	.46¼	.46½	.53½	.56¼
Price of corn, Culbertson	.60¾	.17⅛	.23⅞	.30⅞	.33⅝
Rate on implements, Moline to Culbertson	.61½	1.04	1.04	1.04	1.04
Rate on corn, Culbertson to Chicago	.246	.45½	.36	.36	.36
Freight on one bushel corn	.13¾	.2624	.20⅛	.20⅛	.20⅛
Number bushels required to purchase implements	798.	4214.	3083.	2384.	2188.8
Freight on raw material	32.85	5.60	63.70	63.70	63.70
Freight on implements	35.54	61.91	60.09	60.09	60.09
Freight on corn	109.88	1105.75	621.53	479.78	440.50
Total freight involved in purchase	178.27	1233.26	745.32	603.57	564.29

War tax of 3% is included in all 1921 transportation costs, but eliminated in all transportation costs for 1922.

Price of corn, Culbertson, is Chicago price less freight and usual handling charge of approximately 2½ cents per bushel.

Rates used for 1922 are those as published in line with I. C. C. decision in Western Grain Rate Case I. C. C. 12929, Opinion 7178, effective January 1, 1922.

STATEMENT SHOWING AMOUNT OF FREIGHT INVOLVED IN THE PURCHASE OF FOUR TYPICAL FARM IMPLEMENTS AT KANSAS CITY, MO.

	Aug. 1, 1914	Oct. 15, 1921	Jan. 3, 1922	Feb. 11, 1922	Mar. 14, 1922
Farmer's price on implements	475.75	717.50	717.00	717.00	717.00
Price of corn, Chicago	.77	.46¼	.46½	.53½	.56¼
Price of Corn, Kansas City	.66¾	.27⅞	.32	.39	.41¾
Rate on Implements, Moline to Kansas City	.22½	.41	.41	.41	.41
Rates on Corn, Kansas City to Chicago	.13¾	.27½	.21½	.21½	.21½
Freight on one bushel corn	.07¾	.15⅞	.12	.12	.12
Number bushels required to purchase implements	712.2	2572.3	2240.6	1838.4	1717.4
Freight on raw material	32.85	65.60	63.70	63.70	63.70
Freight on implements	13.00	24.41	23.69	23.69	23.69
Freight on corn	54.84	407.97	269.77	220.61	206.09
Total freight involved in purchase	100.69	497.98	357.16	308.00	293.48

War tax 3% is included in all 1921 transportation costs, but eliminated in all transportation costs for 1922.

Price of corn, Kansas City, is Chicago price less freight and usual handling charge of approximately 2½ cents per bushel.

Rates used for 1922 are those as published in line with I. C. C. decision in Western Grain Rate Case I. C. C. 12929, Opinion 7178, effective January 1, 1922.

The Wage Factor

It is evident that even with the improvement which has been accomplished by the recent rise of price, some part of which has been lost since March 14, and the reduction of freight charges which the railroads have put into effect, the farmer is still in a very disadvantageous position as compared with that which he occupied in 1914. Even on the basis of Kansas City rates it now requires more than twice as many bushels of corn to make the stated purchases as it did in 1914. Moreover, that is true of a large share of the purchases he has to make, such as clothing, shoes, furniture, fuel, etc., and particularly articles in which freight charges are an important factor. The principal factor in all the things a farmer buys is labor, and obviously it is impossible that the situation shall be corrected without a readjustment of wages.

The fact that it takes over twice as much corn as before the war to pay for a farm im-

plement, or for almost any other purchase that a farmer wants to make, manifestly curtails his purchases, which means that the outlet for nearly all classes of manufactures is curtailed, and that there is less employment for labor in all the manufacturing industries. The labor leaders complain bitterly of the amount of unemployment, but fail to see that their own policy of artificially maintaining industrial and transportation costs is the chief cause. Their mistake is in looking only at money wages, and in refusing to look beyond the employer and take account of the effect of high costs upon consumption and upon the living expenses of the wage-earning class. If they were trading days' works directly with the farmer they could not hope to be allowed such an advantage over him as they are trying to maintain, and probably would not be so unfair as to ask it, but that is the effect of their present policy.

In the conference between the anthracite coal operators and miners, the latter are reported to have presented figures to show that rents, lights, taxes and some foodstuffs have increased and that clothing has decreased very little. In considering the condition of other workers, coal may be added as an important item in which there has been no reduction, and in this also the principal factor is labor. To the extent that wages are maintained all around, the cost of living is also maintained, with the result that the farmers and wage-workers who have had to take reductions are put at a serious disadvantage, and the curtailment of their buying power curtails employment in the very industries where high wage rates are still paid.

The Farmer's Position Must Be Restored

It is argued theoretically that this unbalanced state of industry is no obstruction to the restoration of prosperity, because, it is said, what the farmer has lost some one else has gained; if the freight charges of the Culbertson farmer, measured in corn, are several times as high as in 1914, and the difference is distributed in wages to railroad employes, coal miners and others, the latter are in position to buy what the farmer cannot, so that on the whole consumption and trade will be as great as before.

The weakness in this argument is that no such general readjustment and redistribution of income can be readily made. It occasions a general disorganization of industry, throwing so many people out of employment that instead of an increased distribution in wages there is a reduction of actual wage-payments. Sales to farmers have fallen off and sales to wage-earners have fallen off also. The artificial shift of compensation which in theory appears possible, cannot be worked out in real life—at least it cannot be worked out except by a gradual process which involves time, unemployment and hardship. Moreover, any calculation which assumes that a permanent readjustment may be effected with the farmers on a relatively lower basis of compensation than that which existed before the war will prove to be fallacious. Unless other things come down, farm products will be forced up by a decline of production, and the entire industrial organization will be working on an artificial basis, in a futile effort to improve living conditions by laying the emphasis upon wages and prices instead of upon harmonious production.

Mr. Gompers urges strenuously that all wage reductions will increase the prevailing stagnation by reducing the purchasing power of the wage-earners. This is the theoretical argument referred to above. What he doesn't see is that wages have been reduced already, but in such manner that the reduction does no one any good. They have been reduced by underconsumption, unemployment and part time work. If it is true, as argued that a reduction in the compensation of the farmer need not harm business because what he loses the wage-earner gains, it ought to be equally true that a slice taken off the wage-earner's war-time pay and restored to the farmer, will not reduce the aggregate purchasing power of the country. In fact, it will benefit everybody, including the wage-earners, by restoring the normal equilibrium to which our industries have been in the past adjusted.

Labor Controversies.

The disturbance in the textile industry of New England, which began about two months ago, is unsettled and spreading, with a likelihood of involving the entire textile industry of that section before it is settled. The mill companies sum up their side of the case by saying that New England is operating on a shorter day and paying higher wages than the mills in the South, and that at the present high prices for goods there is not enough demand to go around; hence they cannot run full time under the present conditions. The Pacific Mills corporation, of Lawrence, Mass., in its statement announcing a reduction of 20 per cent in wages, states that even were goods to be sold at cost they still would be twice the price they were prior to the war. Wages now, it is stated, are 120 per cent above pre-war level and with the proposed reduction of approximately 20 per cent on the average, the wage cost will still be 75 per cent or more above pre-war wage levels.

The President of the Consolidated Textile Corporation, answering a charge that wage-reductions would be unnecessary but for the inflated capitalization of the corporation, says:

A high grade print cloth made by B. B. & R. Knight, Inc. (a Consolidated subsidiary), sells at 42 cents a pound. The manufacturing cost of this product in one of the most modern and economical cotton mills in the country is more than 42 cents, taking into account only labor, cotton, power, insurance and taxes.

It will be noted that these items of cost include nothing for depreciation, administration, selling, interest on bonds or dividends.

Therefore, if the capitalization and bonded indebtedness of the Consolidated Textile Corporation were many times what it is it would make no difference in its manufacturing costs.

It is unfortunate that the striking employes of the cotton mills in Rhode Island should be deluded into a belief that they are being denied the wages and working conditions they seek because of alleged excessive capitalization of the mills that employ them. Wage reductions were sought in Rhode Island and elsewhere for the reason that the public would not buy cotton goods at a price which the higher wage scale made necessary.

The clothing manufacturers of the principal centers of that industry have been negotiating with the unions for some weeks over a new agreement to take the place of the one under which they have been working, which will expire soon. Although no announcement has been made, reports are current that the union leaders are disposed to accept a moderate wage reduction and also cooperate in the adjustment of working conditions to accomplish a reduction in manufacturing costs.

The Coal Strike

The public has taken the impending coal strike very quietly, refusing to believe that there will be any serious effects upon business. This is upon the assumption that there will be plenty of time to settle it before any scarcity of coal is felt. Nevertheless, the strike is a grave matter, for without doubt the men are going out with the expectation that it will be a long strike, and with a determination not to take a reduction. They are the more resolute from the fact that although their wage rates are high their actual earnings during the past year in many districts have been low, owing to the amount of idle time. For years the curse of the coal industry has been the amount of idle time, and no one has shown how to remedy it. There are too many coal mines dividing the business, and too many workers dividing the work. It is difficult to see how any remedy can be provided, except by having the young men turn away from coal-digging and place themselves in other work. If an autocrat, with the authority of Lenin, was managing the industry he would enforce a distribution of labor away from it. That would compel more regular employment for the remaining miners, they would earn more wages at lower rates, coal would be cheaper to the industries and railroads, and not only would coal be cheaper to the great wage-earning population, but everything else it consumes would be cheaper by reason of the lowering of costs in all industries and for transportation.

Railroad Labor

The policy adopted by the railroads of having all work done by contract that can be so arranged for is illustrated by the following news reports:

The Erie Railroad has awarded a contract for maintenance of way and repair work on the Ohio region, covering 400 miles of main track, to the Dickson Construction & Repair Company. This completes the contracting for all the maintenance work of the Erie covering the entire system. The officials say they expect more efficient work along with a saving in cost by this method.

SCRANTON, Pa., March 7.—The Delaware, Lackawanna & Western Railroad Company will hereafter have all the freight at its big transfer station in this city handled by contract. Downey Bros., of Binghamton and Rochester, were today awarded the contract.

About one hundred men are employed at the station. This will be the third Lackawanna freight station operated by private contractors.

BALTIMORE, March 8.—The Western Maryland railway yesterday announced to its 3,000 maintenance of way employes that at midnight the Dickson Construction and Repair Company of Youngstown, Ohio, would assume control of maintenance of way work on the entire system. The Youngstown firm, which will undertake the work on a contract basis, plans to retain the railway company's present force of laborers, it is said, with wages reduced from 39½ cents to 25 cents per hour.

The move, which follows the placing of the repair shops at Baltimore and Cumberland on a contract basis, was described by road officials as an economic measure.

The object of this policy is to escape the high wage rates demanded by the railroad labor organizations and avoid submitting the controversy to the Railroad Labor Board.

The employes of the Western Maryland railway who are affected by the adoption of the contract system have struck in consequence, and it said that there will be strikes on other roads adopting the policy.

The men complain that such action by the companies is an evasion of the law, but how far the law shall be held to compel the roads to hire labor direct instead of having work done under the contract system probably will have to be determined by the courts. Some of the companies have maintained extensive shops for the repair and construction of equipment, while others have had such work done mainly by outside shops. The right of contract hardly could be denied in such cases. If it could be, the claim might be set up that the railroads should do all construction work on their own account, and by the same logic it might be argued that they should mine their own coal, as some of them do, and even make the iron and steel used in their shops.

A law like the Railroad Labor act should be strictly construed to carry out the distinct

purposes for which it was enacted. In this case that was to avoid the wage-disputes likely to cause a suspension of transportation facilities. A strike of train men does this, mainly because engineers and firemen cannot be readily replaced. A strike of track-laborers or machinists does not necessarily stop the movement of trains, and either class of labor may be gradually replaced without seriously inconveniencing the public.

The root of the trouble is in the fact that railroad employes are paid more than the common run of employes in other occupations requiring the same order of ability. The railroads would not be able to make these contracts showing large savings if this were not the case. The companies wish to get from under the jurisdiction of the Railroad Labor Board so far as possible because they are convinced that the Board will follow a compromising policy that will continue this situation.

It must be borne in mind that the essential purpose for which we have railroads is neither to pay wages nor pay dividends but to render service to the public. Incidentally, the roads must pay wages sufficiently high as compared with pay in other pursuits to attract a good class of employes, and a return upon capital sufficiently high as compared with other investments to obtain the funds necessary to keep the properties up to the requirements of a growing traffic. The principle of just compensation is the same in the two cases, because the rights of the public are paramount in both cases. It was not the intention of the law to make railroading a preferred occupation. The pay of railroad employes cannot be maintained above that of workers in other industries except at the expense of the very workers who are receiving inferior pay. It is manifestly unjust that a machinist working in a shop manufacturing agricultural implements and receiving, say, $5.00 per day, shall have to contribute, through high railroad charges, to the pay of a machinist doing a similar class of work in a railroad shop at, say, $7.00 per day. This is the essence of the railroad labor situation.

The request of the railroad companies for a further reduction of wages for all classes of employes is now being presented to the Railroad Labor Board. Conferences between the officials of the Brotherhoods and the officials of the Mine Workers organization have been announced as taking place for the purpose of pledging mutual support, whatever that may mean. Evidently the idea of combined force is strong throughout the organizations and this always involves the possibility of serious trouble unless that force is directed with intelligent understanding of economic conditions. The labor organizations may have more power than the employers, but both are subject to economic law. There is more to the industrial problem than a mere trial of strength between employers and wage-workers. Industrial peace and progress is dependent upon a general understanding of this fact.

THE MONEY QUESTION

In the Bank Letter for March appeared the first of two discussions upon the subject of Money, written for the purpose of making general reply to inquiries and comments called out by an article in the January Letter dealing with the proposal to issue paper money as a means of financing public improvements. Obviously these articles are far from exhaustive, but have been written with a view to covering the points most frequently presented in the letters we have received. Last month's article described the evolution of the Gold Standard, and the services which it was rendering before the war in international trade. The second article, which follows hereafter, amplifying several points touching the Gold Standard, deals with paper money.

The Gold Standard

Before leaving the Gold Standard we would like to refer again, briefly, to the delusion which seems to be held by many people, that the gold stocks are chiefly held by exchange dealers or international bankers, and that the shipments which ordinarily occur from country to country signify nothing but manipulation for profits. The truth is that five-sixths of the gold stock of the United States is held by the Federal Reserve Banks, and that anybody who has occasion to use gold for international payments or otherwise may obtain it, without any charge, by simply presenting Federal Reserve currency for redemption. This situation formerly existed in all countries maintaining the gold standard. The principal holdings of all those countries were in the State banks of issue, as reserves against their currency, and anybody had access to them by presenting the currency for redemption. By this means exchange charges between all the principal countries were kept within the limits fixed by the cost of shipping gold. The effect was to prevent the violent fluctuations in exchange which have prevailed since gold

payments have been suspended by the foreign banks of issue.

The people who complain of the fluctuations in foreign exchange, and of the profits which exchange dealers are said to be making, are mistaken in attributing these fluctuations to the gold standard. They are due to the absence of the gold standard, and to the attempt to operate currency systems in Europe without relationship to any international standard of value. When gold was withdrawn from the banks of issue for international payments, it was done as affording the cheapest method of effecting settlements which in the natural course of business had to be made; while now, in the absence of such facilities, the public is dependent upon the best terms it can make with exchange dealers, and the latter also are subject to risks which formerly did not exist.

The Supply of Gold

Another point upon which it seems best to touch is that of the alleged scarcity of gold. Evidently there is a belief in some quarters that the supply of gold in the world is inadequate for the use of the metal as the universal standard of value and basis of currencies. The fact is that for the twenty years preceding the war the production of gold was increasing faster than population, and at such a rate that in the opinion of economists generally it was causing a state of inflation. The rising prices of the period from 1900 forward were commonly attributed to the increasing output of gold, and the considerable agitation which had developed before the outbreak of the war, for stabilizing the dollar had its origin in this price movement. In so far as the supply of gold presented any problem prior to the war, it was one of over-abundance with a tendency to depreciation, instead of scarcity.

There is a theory that the vast increase of the volume of paper currencies calls for larger gold reserves, but the effect of this increase is to depreciate the value of these currencies in their relation to gold and to everything else. No problem is presented in this respect.

It has been suggested also that the United States might be at a disadvantage from the fact of its using the same standard of value as before the war, when other countries had reduced the value of their money. It is a curious delusion that a country may gain anything by depreciating the value of the currency which is its common medium of exchange. The only basis for the theory is that while the depreciation is going on and the wage and price adjustments are being made, some of the people gain a more or less temporary advantage over the others. As the mark has depreciated German manufacturers in some lines have been able to undersell competitors in foreign markets, because foreign credits converted into German currency gave much more of the latter than formerly, and wages in Germany have not advanaced to correspond. The cost of living in that country, however, has been rising rapidly as an incidental result of the fall of the mark, since much of its food food supplies must be imported, and wages are continually forced up, although lagging behind prices.

The situation is very unsatisfactory to all German leaders who comprehend it, and the best estimates place the present production of German industry at not over 70 per cent of the pre-war time.

If the mark ever ceases to depreciate and is stabilized, the process of readjustment will go on until wages and prices reach normal relations, when the so-called advantage in foreign trade will have disappeared.

The United States Tariff Commission has published recently a report upon Depreciated Exchange and Foreign Trade, in which it shows that the much-talked-of advantage of Germany is largely illusory, and dependent upon continued depreciation. It says that in France and England, where depreciation ceased some time since, wages and prices have advanced in practically the same degree that exchange has depreciated, with the result that those countries now are in no better position to compete with the United States than they were before.

Paper Money and Bank Checks.

The discussion to this point has been confined mainly to the gold standard, with only incidental reference to paper money by way of pointing out the advantages derived from having the currencies of all countries maintained in stable relations to each other. We will now treat briefly of paper currencies and of the services rendered by the banking system in effecting payments and settlements.

There are three important reasons for the use of paper money, which may be summarized in three words—convenience, economy and elasticity. Paper money is more convenient to carry, especially in considerable sums, and considered simply as an instrument of trade, is a cheaper agency than gold or silver. It costs less to print bills than to mine, refine and coin the metals, and to the extent that paper money will serve as well there is this advantage in using it; and finally, a degree of elasticity may be given to the volume of paper currency which cannot be given to the stock of metallic money. By elasticity is meant adaptability to the volume of trade, which fluctuates from time to time.

Paper money, however, cannot stand alone. Since it has no value in itself, it must represent or refer to some value outside of itself,

When we read that a currency note carries a promise to pay, or purports to be worth, ten dollars, or ten francs, or ten kroners, or ten pesos, we must have the definition of these terms as given by the monetary statutes of the countries using them. In short, a paper currency, in order to have any practical significance or stability, must refer to some commodity of concrete value, and faithfully represent that value. Moreover, as we have seen, the most effective way, and the only practical way, of maintaining a paper currency in conformity with the standard is by making it redeemable in the standard, or, in other words, by making them interchangeable. This should be kept in mind as the reason why provisions for redemption are necessary.

How Shall Paper Money Be Issued?

Paper currency may be issued by the Government or by banking institutions, but it is now issued, the world over, almost wholly by banking institutions, and usually by central banks, such as our Federal Reserve Banks, which are under Governmental supervision and carry the final banking reserves.

The question whether paper currency should be issued by the Government or by banks has been the subject of much controversy in this country, many people maintaining that the issuance of paper money is a function identical with coinage and that if the banks issue currency they have undue control over the supply. The argument is fallacious, and arises first from a mistaken idea of the act of coinage, and second, from ignorance of practical banking operations—particularly of the part which the banks play in effecting trade settlements, and the way in which paper currency is associated with banking services.

The act of coinage as exercised upon gold or any kind of standard money does not signify any control over the volume of money. The Government receives whatever bullion is offered at the Mint, coins it and virtually returns it to the depositor. It has nothing to do with the supply. That depends upon the miners or the traders or bankers who import or export it.

Paper money, as stated above, is an economical device for effecting payments. It does not have value in itself, but when issued in accordance with sound policies it represents values. A currency note is like a ticket or order, good for a certain value in the hands of any holder, but should not be confused with the values themselves. The part played by paper money in the business of the country is very much exaggerated in the minds of some people. As a matter of fact, the great bulk of the payments are made through the banks without the use of any kind of money. The payments made in money probably do not amount in value to 10 per cent of the total. The heated controversy is about whether the banking system, which already provides the means by which fully 90 per cent of the payments are made, shall or shall not provide for the other 10 per cent, or whether Congress, which is entirely outside the business community, shall provide the means for the 10 per cent.

The principal medium of payments in the United States is bank checks, and there is no essential difference in functions between a currency note and a bank check. A bank check usually is for the amount of a specific invoice or charge and after effecting the single payment for which it is drawn is cancelled. A currency note is for an even sum, and whether issued by a Government or a well-known banking institution is better adapted than a private check for circulation from hand to hand, and is chiefly used in the retail trade and for payrolls. Whether currency is originally issued by the Government or by a bank, the public usually obtains it from a bank, and it is continually in and out of the banks, quite as though it was being issued and reissued by them.

Business an Exchange of Goods and Service

Let us look a little closer at the services performed by the banks in accomplishing payments. The trade or business of the country consists of an exchange of services among the people, and it follows that if checks or tickets representing all transactions could be brought together they would offset and settle themselves. This is virtually the service which currency is intended to render, and all economists in discussing the subject include private checks as practically part of the "currency" of the country. They render the same kind of services as the official currency.

The volume of currency, therefore, should not be a fixed amount, authorized in a round sum like our greenbacks, but such amounts as are needed from day to day. The currency is not to be regarded as capital, but as an agency effecting transfers and making settlements. The difference is fundamental. The commodities or property being exchanged are capital, and labor is to be classed in the same category; they are real values over against real values. The currency is not the motive power in business. It is what each person has to sell that constitutes his real purchasing power and causes his demand for the products or services of others. A wheat crop in Kansas creates a demand for other goods from other parts of the country. The southern states grow cotton as their chief product and with it obtain the products of other states and other countries.

The service of currency has been compared to the service of railroad cars. The latter are a means of transportation, of great convenience in effecting the exchange of commodities, but, after all, railroad cars are not the chief factor in creating trade. We want enough of them always in reserve to provide ample facilities for all the commodities that may be offered in trade, but you cannot create trade simply by increasing the number of railroad cars. They are a facility of trade, and paper money likewise is a facility, and nothing more.

The Clearing Process

As already stated, the real purchasing power in the possession of each person consists of his own services or products. He exchanges these for the services or products of others. These exchanges constitute the "business" which is transacted from day to day. It is interesting to observe how these exchanges are accomplished and the settlements made.

If there was only one bank in a town and everybody kept an account in it, and made every payment by check upon it, also depositing every check received in it, the business of the town would be settled or "cleared" on the books of that bank and through the relations which the bank had with banks in other localities with which that community had business relations. Most towns have more than one bank and they all receive checks drawn on each other, but their representatives meet daily and swap these items and pay the small balances in cash. The payments within the town are mainly effected in this way.

Payments from one locality to another are made almost wholly by check and these checks are deposited by the recipients in their respective banks, and forwarded by these banks to correspondent banks in some city that is central for the territory, where they are passed through a clearing house and eventually cancelled mainly by offsets and book entries.

Since the establishment of the Federal Reserve System, the twelve Federal Reserve banks have become the principal collecting or "clearing" agencies. A merchant located in the Chicago Reserve District upon receiving an out of town check will deposit it in his own bank for credit and that bank will send it to the Reserve bank at Chicago. If the bank on which the check is drawn is within that district the Reserve Bank has only to credit the check to one bank, and charge it to the other, but in case it is in another district the check will be forwarded to the Reserve bank of that district and charged accordingly. In this manner, by a system of book entries, the products of the different industries and different sections of the country, and of the different countries are offset against each other, and settlements aggregating many hundreds of millions of dollars are made daily. Evidently it is a far more economical and scientific system than shipping government-made money around the country.

Services of the Standard

The fact should not be overlooked, however, that the gold standard is rendering service in all these transactions. The word "dollar" wherever it appears signifies the value of 23.22 grains of fine gold. The reserve banks are required to keep ample reserves of the metal and the settlements between the reserve banks are accomplished daily through clearings at Washington, where a joint settlement fund is maintained. The gold is not handled, but the ownership share of each of the twelve banks is adjusted upon the books from day to day. Each must regulate its business to maintain the required legal reserve, and the maintenance of the business of the country upon this basis not only assures the highest degree of stability that can be secured at home, but stable relations to the monetary systems of other countries where they do likewise This is our part toward maintaining a world standard of value.

Before the war, when nearly all nations maintained their currencies in fixed relations to gold, the same clearing system of effecting settlements extended everywhere. The financial relations of this country with other countries centered in New York, and after the offsets were made, final settlement of the balance —always insignificant in comparison with the total volume of transactions—was made in gold.

The Importance of an Elastic Currency

While the great bulk of the payments of the country are thus effected by the banking system without handling money of any kind, there remains a varying amount for which a lawful currency is needed. It is important to understand that it is not a fixed or regular amount and that it cannot be closely calculated in advance. It depends upon the state of trade, the level of prices, varies with the seasons of the year, and is subject to very considerable fluctuations. It has been customary in the harvest season for the country banks to call for additional amounts of currency to meet the wants of their customers. If the farmers are paying harvest hands or threshing crews they need more currency than at other times, apply to the banks for it, and under the present system the local banks are supplied by the Federal reserve banks. The shipments of currency are charged to the reserve account of the member bank, and the latter may replenish that account by sending in customers'

notes for re-discount. When payments to harvest hands have been completed, the currency that has been disbursed will be gradually expended by the recipients and find its way back through stores, railway offices and otherwise to the local banks, and from the latter to the reserve bank. The circuit is thus completed. In some parts of the country the movement of the crop from farmers' hands requires more currency than in other sections, depending upon the extent to which the farmers are accustomed to accept bank checks. If the farmers are accustomed to receive cash, the amount required will vary with the prices of farm products. It will take more to move a cotton crop at 20 cents a pound than at 10 cents per pound.

In the case of a manufacturer wanting money for his payroll, a similar procedure is followed. The manufacturer goes to a bank for currency, which he distributes to his employes. They pay it out at the stores, theatres, churches, for professional services or otherwise, or put it in their own bank accounts. One way or another it comes back to the banks, who keep enough to supply local needs and return any surplus to the reserve bank. As the practice of paying by check increases, the use of currency diminishes, and this burning question of who shall issue the money tends to disappear.

The important thing to grasp is that it is not the amount of money in circulation that makes business, but the other way round—the amount of business and the habits of the people in doing it determine the amount of currency in circulation. Fifty years from now we may not use more than half as much to do the same amount of business as now. It is essential to have a stable standard of value and an elastic currency, constantly convertible into the standard.

Recent Contraction of the Currency

It will be seen that the movement of currency into circulation and back to the reserve banks is almost wholly automatic, depending upon the volume of trade, prices, etc. During the past year there has been a great reduction of the amount of currency in circulation, and much criticism has been leveled at the reserve banks, for having, as some people have thought, forced a contraction of the currency. Nothing of the kind has been done. The explanation of the reduction lies in the fall of prices and general slackening of trade. It is not taking as much currency to move the crops and meet pay-rolls and carry on the trade of the country as it did when prices were higher, employment was full and trade more active. The critics who have attributed the latter conditions to the contraction of the currency have put the cart before the horse. They have mistaken the effect for the cause.

Confusing Currency With Capital

It is perfectly safe to say that under the Federal Reserve System business is never hampered for lack of currency. It may be hampered for lack of credit—because borrowing has gone to the limit—but that is a situation totally different from a lack of currency. It is not uncommon for people to borrow to the limit of their credit resources in good times and find they have no resources in reserve for bad times. It sometimes happens, when people borrow to the limit of their resources in booming times, that their resources shrink in value later and the banks not only refuse to lend them more, but are compelled to press for a curtailment of the loans. This, likewise, is no sign of a want of currency; it is simply a sign of bad business judgment. A great share of the agitation over the money question is due to unwise borrowing. No solution of the money question can protect people against the consequences of mistaken business policies.

Other Requisites for Prosperity

A supply of currency is not the only thing needed to make times prosperous. You cannot make people exchange their goods and services by simply providing banking and currency facilities. They have to agree among themselves about the terms upon which they will make the exchanges. There will not be much trade between men who get one dollar per day for their labor on farms and men who get ten dollars per day in the towns. Something besides tinkering with the currency is needed to break that kind of a dead-lock. Trying to remedy it by manipulating the money or changing the standard of value obscures the real problem. A balanced state of industry is fundamental to prosperity.

Present System Scientific and Adequate

The present system of providing currency is adequate for all the needs of business. The currency supply is directly related to the wants of business. It is directly supplementary to the system of settlements through the clearing houses. It is a simple, scientific system.

Any attempt to put out currency for other purposes than that of effecting the exchange of merchantable commodities, readily realizable, will introduce a new and disturbing element into the situation. It is characteristic of a scientific currency that it disappears—retires—as it completes the exchanges for which it is called out. As the settlements made through the clearing-houses wipe the slate of all in-

struments and book-keeping, for a new start, so the currency that goes out from the Federal Reserve banks to move the crops will be retired by the crops, and the currency that goes out for pay rolls is retired by the goods that result from the payrolls. The process is as continuous as a moving picture, and is like a moving picture in the sense that it is a succession of independent, separate acts. The currency is sound as long as it retains this intimate relationship to goods moving into consumption, and is extinguished as the goods are consumed.

How Inflation Results

In the case of currency created for war purposes, the goods which it represents are destroyed but the currency remains in circulation; this is inflation, and becomes a disturbing element in the situation. The volume of currency outstanding thus becomes in excess of the normal amount directly related to the volume of commodities, and if there is no redemption or outflow of the standard money to other countries, the currency will depreciate in value to make room for this excessive supply.

If currency is issued for engineering works, which cannot be productive for years to come, the effect will be similar. The works in time may render returns to justify the outlay upon them. but not promptly enough to maintain the balance between currency and commodities in circulation. When the engineering works are in operation and turning out products for market, currency may be properly issued to assist in moving them, but the works themselves call for the investment of capital—accumulated savings.

The Danger of Depreciation

If there is waiting to be done, for reimbursement, somebody must be paid for doing it. When the Liberty bonds fell below par there were people who urged that they should be made legal tender, the effect of which would have been to add some $20,000,000,000 to the $6,000,000,000 of money outstanding. Their purpose was to raise the bonds to par. The effect, undoubtedly, would have been to establish a parity between the bonds and other forms of legal tender money, but not by raising the value of the bonds; it would have been accomplished by lowering the purchasing power of all our money, thus taking the difference out of the income of the people who were receiving stated sums of money.

The chief objection to a bond issue for the purpose of paying the proposed Soldiers' bonus, is that the offering of such an amount of bonds would certainly depreciate the market value not only of all government bonds, but all securities of every kind now outstanding. If the Government should pay the ex-soldiers directly in bonds and the recipients would all put the bonds away in safe-keeping and simply draw the interest as it was paid and the principal when the bonds matured, the effect would be comparatively slight. But it is quite certain that if this policy was adopted a great many of the recipients would forthwith sell the bonds on the market for what they could get. The market could not absorb such a quantity of bonds at par, they would be offered below par, and all security values would be carried down. If government bonds, bearing interest, will depreciate under an excessive supply, it is even more certain that paper money, which bears no interest, will depreciate under similar conditions, and the European currencies bear testimony to the fact. The use of paper currency as a substitute for capital for investment purposes is a violation of economic law which cannot be committed without suffering the penalty.

Panic Demands for Currency

In describing the services of the Reserve banks in supplying currency, we should not omit one other occasion for unusual calls, as this is the one which more than any other reason prompted the establishment of the Federal Reserve banks with the power of note issue. It happens, occasionally, that alarm is excited as to the ability of an individual bank to meet its obligations, resulting in a "run", or unusual demands upon it. Of course, no bank keeps money enough on hand to pay off all its deposits at once, and it has happened that solvent banks have been obliged by sudden demands to close their doors. The only effective way to deal with a run is by paying cash, and to do this it becomes necessary to provide an unusual amount. Moreover, it has repeatedly happened that a feeling of distrust has spread over the entire country, so that there was need for more ready cash in every bank and banks were unable to help each other. The last time this occurred was in 1907. Under our banking and currency system at that time the amount of money in the country was practically a fixed quantity. The principal relief was by importing gold from Europe, to obtain which securities and products were sold at a sacrifice, and loans negotiated in large sums. By thus demonstrating the lack of elasticity in our currency system the panic of 1907 had more to do with the establishment of the Federal Reserve System than any other one cause. The Government is not equipped to supply currency upon the security of commercial paper except through some such organization as the Federal Reserve System.

The Demand for Money Falls on the Banks

It will be seen that all the demands for currency on the part of the public are directed upon the banks. They all have to do with the banking function; they are immediately related to the services of the banks to the community, and are supplemental to the much greater service which the banks are constantly rendering without the use of money. Moreover, there is every reason in each instance why the banks should desire to render the service that is needed, and no reason whatever for distrusting their willingness to give it.

On the other hand, these demands for currency have no relation to governmental functions. The government has no way of putting money into circulation except by paying it out for services rendered and in that case there would be no way of retiring it. The government is outside the business circle. Unless it is to enter completely into the banking business, including the making of loans, it is not in position to provide a currency supply that is elastic and responsive to business needs.

Profits of Reserve Bank Issues Go to the Treasury

The opponents of bank note currency have laid great stress upon the profits said to accrue to the banks from the privilege of issuing money. The profits of national banks from this source have been greatly exaggerated, as may be judged by the fact that the state banks and trust companies, which do not have the privilege of issuing currency exceed in number and in volume of business the national banks. A privilege which is open to everybody upon such general terms as the privilege of starting a national bank and issuing national bank currency never is very valuable.

It is worthy of special note, however, in this connection, that the chief currency of the country now is that issued by the Federal Reserve banks, and this will eventually take the place of all national bank currency. Inasmuch as all of the earnings of the reserve banks in excess of six per cent on their capital are turned into the United States Treasury as a franchise tax, it may be fairly said that all of the profits possibly attributable to the privilege of note issue go to the Treasury. No basis whatever is left for what always has been one of the chief arguments for Government issues. Indeed, the Reserve bank issues are Government issues, put out through agencies constituted for that purpose.

The Interests of Bankers

The answer to all allegations that bankers are prompted by self-interest to oppose the various schemes for creating fiat paper money is that the bankers can have no interest in the subject which is opposed to the general public interest. All such allegations are from people who do not understand the relations of the banking business to the public. As stated above, the member banks make no profit on the currency issued by the Federal Reserve banks. Whatever profits there is on that goes to the public Treasury. The main source of profit in the banking business is the deposits left with the banks by the public, and these deposits invariably increase in good times and diminish in bad times. The banks enjoy the greatest prosperity when their customers do and when the general public does. The deposits of national banks have fallen from $16,961,702,000, as shown by the statement of November 15, 1920, to $15,075,102,000, as shown by the statement of December 31, 1921. Moreover, interest rates declined very materially between these dates, so that the banks lost not only by the falling off in amount of deposits at their disposal but by the fact that the rates of interest at which they could be loaned were reduced. And finally the heavy losses inflicted by bad times upon borrowers had the further result of causing heavy losses to the banks.

If these simple, incontestible truths could be generally understood they would dispose of most of the nonsense that is uttered about the interest of the banks in the money question. An increase in the volume of money, however accomplished, will increase bank deposits, enable the banks to make more loans and increase their nominal profits. They will gain if the community gains, but if such artificial expansion of the currency depreciates its values, as it must, and demoralizes business, the banks will suffer with the community of which they are a part.

International Trade of the World in 1920 Compared with 1921

By O. P. Austin
Statistician, The National City Bank of New York

World international trade in 1921 was only about two-thirds as much in stated value as in the immediately preceding year. Official reports of the 1921 imports and exports of 25 principal countries of the world aggregate, when transformed to U. S. dollars at the par value of their respective currencies, approximately $52,000,000,000 against $79,000,000,000 in 1920, a reduction of approximately 34 per cent in stated value.

The principal countries for which 1921 figures are now available include all of Europe except Russia, Poland, Germany, Portugal, Greece and the states formed from the Austro-

Hungarian Empire; the United States, Canada, Cuba, Argentina, Brazil and Uruguay in America; India, Japan, Australia, New Zealand and the Philippines in the trans-Pacific area; Egypt and the South African Union in Africa. They are representative countries, typifying the great industries of the world; the European countries, the United States and Japan the world's great manufacturers; Canada, Cuba, Argentina, Brazil, Uruguay, Egypt, South Africa, Australia and New Zealand great producers of food and manufacturing material, while the United States also belongs in part to this second group. Their combined imports and exports formed two-thirds of the international trade of the world in the year before the war, aggregating in 1913 $28,000,000,000 out of a world total of $40,000,000,000. Assuming that these 25 countries still represent approximately two-thirds of the world's trade, the total world commerce of 1921 would stand at about $78,000,000,000 in stated value, against approximately $118,000,000,000 in 1920, and $40,000,000,000 in 1913.

While comparisons of world trade in 1921 with that of earlier years are rendered difficult by reason of the fluctuations in the value of the currencies in which the commerce of certain countries is measured, it happens that the currencies of the 25 countries for which 1921 figures are now available show less violent changes during the past 12 months than those of certain other commercial countries whose trade figures are not yet available in sufficiently complete form to justify their inclusion in the tabulation here presented or to render possible a comparison of their 1921 totals with those of 1920. In most of the European countries for which 1921 figures are available, the change in the past year in the value of currencies has been less marked than in earlier years and in many cases the year has shown distinct improvements and this is also true of the currencies of the non-European countries which it has been possible to include in the accompanying tabulation. In the mere matter of a comparison of trade values in 1921 with those of the immediately preceding year, the record presented by these 25 countries may therefore be looked upon as a fairly correct picture of the actual changes in the total valuation of the trade of the countries included in the table.

A more detailed study of the fall in trade figures, country by country, suggests that the 1921 reduction occurs in a larger degree in manufactures than in the natural products, which had begun to show declines in prices in the closing months of 1920. In the case of the United States, the exports of finished manufactures show a fall of practically 50 per cent in value in 1921 when compared with 1920, while manufacturing material shows a reduction of 47 per cent, and foodstuffs 33 per cent. In the United Kingdom statements, the exports of manufactures in 1921 show a fall of 48 per cent, while those of the group "food and drink" show a fall of but 27 per cent. In nearly all the countries of the world whose chief exports are manufactures, the per cent of reduction in 1921 is far greater than that of the countries whose chief exports are agricultural products. In the 10 principal countries in which manufactures form a large per cent of exports, the fall off in their aggregate exports in 1921 is 38 per cent and in the 10 countries whose chief exports are agricultural products, the 1921 reduction is but 20 per cent when compared with 1920. The whole world was compelled to buy food and manufacturing materials in 1921, while those who desired to economize in their purchases of manufactures were better able to do so than in the matter of food or even manufacturing material, and hence it happens that the percentage of reduction in the value of manufactures entering international trade in 1921 is materially greater than that of food or manufacturing material.

INTERNATIONAL COMMERCE OF PRINCIPAL COUNTRIES, 1913, 1920, 1921

In million dollars; reduced to U. S. currency at par value of the respective currencies in which officially stated

	TOTAL IMPORTS Million Dollars			TOTAL EXPORTS Million Dollars		
	1913	1920	1921	1913	1920	1921
Argentina	407	850	612‡	467	995	648‡
Australia	388	719	584	365	676	618
Belgium	975	2,490	1,949	717	1,710	1,380
Brazil	327	1,142	923	316	957	934
Canada*	670	1,337	799	356	1,303	817
Cuba	132	574	356	165	783	278
Denmark	229	842	434§	171	486	390§
Egypt	138	506	274	157	423	180
Finland	96	699	697	78	562	652
France	1,642	9,631	4,536	1,327	5,192	4,169
India Br.*	522	1,572	1,354	782	1,420	1,091
Italy	702	3,069	3,724§	483	1,505	1,733§
Japan	363	1,165	787	315	971	612
Netherlands	1,575	1,340	901	1,239	684	551
New Zealand	108	157	328	111	247	235
Norway	148	684	414§	102	523	201§
Philippines	56	149	116	54	151	88
Siam*	28	52	59	30	65	34
Spain	239	271	243	194	198	156
Sweden	227	904	339	219	615	289
Switzerland	371	818	443	266	633	350
Un. S. Africa	203	461	255¶	323	396	284¶
Un. Kingdom	3,208	9,405	5,289	2,556	6,494	3,422
United States	1,793	5,278	2,509	2,450	8,080	4,379
Uruguay	51	90	89§	65	84	74§
Total	14,598	44,205	28,014	13,308	35,152	23,565

* Fiscal year figures.
† Includes gold.
‡ Estimate by U. S. Dept. of Commerce.
§ December estimated.
¶ November and December estimated.